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SUBJECT: ARGENTINA: CRISTINA GOES TO CARACAS TO GRAB COLOMBIAN MARKET SHARE

REFS: A. CARACAS 1062  
1B. CARACAS 690

¶11. (SBU) SUMMARY: Argentine President Cristina Fernandez de Kirchner (CFK) and Venezuelan President Hugo Chavez met August 11 in Caracas to discuss bilateral trade issues and sign 22 commercial accords valued at an announced US\$1.1 billion. These trade agreements followed Chavez's recently announced intent to seek replacements for Colombian imports as punishment for Colombia's negotiations with the USG for expanded access to that country's military bases. Kirchner and Chavez were slated to discuss the status of BRV plans to nationalize additional holdings of Argentina's Techint Group. According to news reports, Kirchner strongly endorsed Chavez and highlighted the importance of Argentine-Venezuelan ties, despite the criticism Chavez has received in Argentina over the recent expropriation of Techint Group's subsidiary investments in Venezuela. END SUMMARY.

KIRCHNER AND CHAVEZ SIGN TRADE AGREEMENTS

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¶12. (U) CFK followed her August 9-10 trip to Ecuador for the re-inauguration of President Correa with an overnight trip to Caracas, where she led a 100-member trade mission. She and Chavez signed 22 trade agreements purportedly worth US\$1.1 billion. The wide range of accords includes plans for Venezuela to import agricultural machinery, leather, and several foodstuffs, including beef, rice, poultry, and milk. CFK sought to take advantage of diplomatic tensions between Chavez and Colombian President Alvaro Uribe over Colombia's negotiations to allow the U.S. greater access to Colombian military bases. In the immediate wake of Chavez's threat to freeze trade relations with Colombia, he and CFK announced August 11 that Venezuela will import 10,000 cars (including Argentine-manufactured Fords) from Argentina before the end of the year. Reportedly, the Argentine auto industry exported to Venezuela about 12,000 units in 2007 and 7,000 units in 2008, but has yet to export a single vehicle to Venezuela in 2009. News reports estimate the agreement to import 10,000 Argentine cars could be worth some \$150 million.

CHAVEZ PLANS TO NATIONALIZE TECHINT GROUP'S INVESTMENTS

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¶13. (U) On August 10, the BRV made a payment of \$260 million to Ternium, Techint's flat steel division, the second payment as part of a settlement for the 2008 renationalization of Venezuelan steel maker Sidor (Siderurgica del Orinoco), of which Ternium had held a majority share. This installment came just a day prior to the meeting between CFK and Chavez where the status of three other Techint subsidiaries was expected to be discussed. While the price dispute regarding the BRV's 2008 takeover of Ternium-held equity in Sidor had been settled according to announcements on May 7, Chavez announced on May 22 his intent to nationalize Tenaris's holdings (Tenaris is Techint's steel pipe division) in three other steel

product firms in Venezuela; Techint has a majority share in two of the three. Following the August 11 meeting, news sources reported that Chavez has yet to begin analyzing compensation for these other Techint Group holdings. CFK reportedly praised Chavez and urged Argentine business leaders not to "demonize" him for his plans to nationalize "strategic" industries.

**¶4. (U)** In May 2007, Ternium Sidor was targeted by Chavez for nationalization. Ternium, Techint's flat steel manufacturing division, owned nearly 60% of Sidor equity, while Chavez moved to increase the 20% stake of the Venezuelan state to 79.7%. Discussion of terms went on until an agreement was signed on May 7, 2009, when Techint accepted a settlement of \$1.97 billion, ending the long price dispute (Ternium originally purchased Sidor for \$1.79 billion in 1997). The BRV made an initial deposit of \$400 million at the time of the agreement (Ref B). \$945 million is scheduled to be paid over six equal quarterly installments, and the remaining balance, to be paid in October 2010, will be adjusted according to benchmark light, sweet crude price.

**¶5. (SBU) COMMENT:** This was CFK's third trip to Caracas in her 20 months as president. Like previous agreements between these two governments, the newly announced deals are unlikely to lead to a significant increase in bilateral trade. The Argentine President was even quoted by newspapers as describing the agreement to export rice as "the most important in Argentine history." Post does not expect actual trade from these commercial accords to match the hype.

While they may result in some trade diversion from Colombia to Argentina's benefit, the actual volume of Argentine exports from the announced deals is likely to be modest. END COMMENT.

#### ADDITIONAL BACKGROUND ON TECHINT

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**¶6. (U)** Since its inception in 1945, Compagnia Tecnica Internazionale (later renamed Techint) has evolved under the leadership of Argentina's Rocca family into one of Argentina's most prominent "Multilatinas" (a Latin-American based multinational corporation), currently holding stock in over 100 companies in over 35 countries, while employing over 53,100 permanent employees. The Techint Group, including both public and private companies, has an annual turnover of nearly \$26 billion. Led by its two primary divisions, Tenaris and Ternium, Techint Group is comprised of several subsidiaries, collectively making it Latin America's largest steel making company and the largest manufacturer of seamless steel tubes in the world. Tenaris focuses on the manufacturing of steel piping and is an important supplier to the global oil industry, while Ternium concentrates on flat steel production. The Techint Group also consists of additional companies that specialize in other industries.

#### TENARIS:

Through its subsidiaries, Tenaris engages in the manufacturing of steel pipe products for industrial applications, particularly for the energy industry. The company operates in three divisions: Tubes, Projects, and Others. The Tubes division produces and sells seamless and welded steel tubular products, while also providing related services for energy and industrial applications. The Projects division engages in the production and sale of welded steel pipe products, typically used in the construction of major pipeline projects. The Others division manufacturers sucker rods and welded steel pipes for electric conduits, industrial equipment, and raw materials. In addition to serving oil, gas, and engineering companies, Tenaris also engages in the constructing oil and gas gathering, transportation, and processing facilities. The company, which is based in Luxembourg, currently operates in North America, South America, Europe, the Middle East, Africa, the Far East, and Oceania.

#### TERNIUM:

Ternium is engaged in the manufacturing and processing of flat and long steel products for several industries, including automotive, construction, container, food, energy, home appliances, and capital goods. Ternium operates in three divisions: Flat Steel Products, Long Steel Products, and Others. The Flat Steel Products division

produces various flat steel products, including: hot rolled coils and sheets; cold rolled coils and sheets; tin plates; welded pipes; hot dipped galvanized and electrogalvanized sheets; pre-painted sheets; and other customized products. The Long Steel Products division manufactures long steel products, such as billets, wire rods, and bars. The Other Products division is engaged in the production of pig iron, pellets, and pre-engineered metal buildings.

Based out of Luxembourg, Ternium operates primarily in South and Central America, North America, and Europe.

OTHER OPERATIONS:

Other companies within the Techint Group include: Techint Engineering & Construction, Tenova, Tecpetrol, and Humanitas. Techint Engineering & Construction is internationally involved with the building of pipelines, oil and gas facilities, and metals and mining plants. Tenova offers a number of technologies and capital goods for the metals, mining, power, raw material, and rock wool industries worldwide. Tecpetrol is involved in oil and gas exploration and development, as well as in gas transmission and distribution projects in the South American region. Humanitas has established a relevant presence in the supply of health services in Italy.

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